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TREASURY FOR KLINGENSMITH AND NGRANT  
COMMERCE FOR 4431/MAC/WH/MCAMERON  
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SUBJECT: CHANGE IS IN THE AIR IN ECONOMIC MINISTRIES AS  
CABEZAS IS NAMED FINANCE MINISTER

REF: CARACAS 3565

¶1. (SBU) SUMMARY: Rodrigo Cabezas, Chairman of the National Assembly's Finance Committee, will be Venezuela's next Finance Minister, replacing current Finance Minister Nelson Merentes. The change is part of a larger re-shuffling of positions by Chavez and will likely be followed by more announcements in advance of his inauguration on January 10. Cabezas, a member of Chavez's political party (MVR), has been a staunch supporter of the concept of "Socialism for the XXI Century," whatever that means. END SUMMARY.

¶2. (SBU) On January 4, Rodrigo Cabezas held a press conference to announce that he had been called by President Chavez the night before and asked to assume the position of Minister of Finance. Cabezas has been an active member of the AN and very vocal as the President of the Finance Committee. He was a leading advocate of transferring "excess" Central Bank (BCV) reserves to the National Development Fund (FONDEN) and for plans to remove 3 zeroes from the Venezuelan currency. (Note: Chavez recently announced that an additional USD 7 billion will be transferred from BCV reserves to FONDEN. End Note.)

¶3. (SBU) Cabezas has also been critical of the BCV's inability to contain inflation, which was 17 percent in 2006, though his proposal to lower the value-added tax was widely derided as ineffective and likely to actually contribute to inflation. Cabezas has said that he intends to work more closely with the BCV than his predecessor, which may be read as future plans to eliminate the BCV's (already tenuous) constitutional autonomy and to further subordinate monetary policy to fiscal policy. Cabezas has announced that deputy Rafael Isea, currently a member of the Finance Committee and a former military officer who participated in the 1992 coup, will become a Vice Minister of Finance. Additional changes at the ministry and the institutions (such as state-owned banks) it controls are likely.

¶4. (SBU) During EconCouns's last meeting with Cabezas in July 2006 (reftel), he was straightforward in his defense of BRV economic policies, which even he couched as more political than economic. He has been receptive to Embassy meeting requests in the past and rarely speaks out about U.S.-Venezuelan relations. Cabezas did, however, quickly and loudly denounce the U.S. Ambassador in 2005 after a visit to Zulia during which the Ambassador signed a series of

agreements with the state government.

¶5. (SBU) It has concurrently been reported that Jorge Giordani will continue in his role as Minister of Planning and Development and Rafael Ramirez will remain in charge of the Ministry of Energy and Petroleum and President of PDVSA. In addition, El Nacional reported that the Minister of Light Industry and Commerce (MILCO) will be replaced, possibly by former CADIVI President Mary Robles. Meanwhile, Minister Merentes has announced that he will fill a position on the BCV's board of directors, reportedly replacing Giordani as the executive branch's representative on the board, and has said that he looks forward to returning to teaching math at the Venezuelan Central University. If the rumors of his side-dealings in bond sales are to be believed, it should be a very comfortable retirement.

¶6. (SBU) COMMENT: The move of Cabezas and Isea from the AN to the Finance Ministry is consistent with Chavez's increasing use of parliamentarians, such as former speaker Nicolas Maduro, to fill cabinet positions. Despite claims that he was already planning to retire from the National Assembly, Cabezas has clearly been gunning for the job for some time. In recent months he has often preempted Merentes by announcing growth figures and gotten ahead of the government on issues such as inflation. Cabezas faces a difficult juggling act as excess liquidity caused by government policies and heavy spending push inflation higher, while tools to fight inflation are limited by political considerations. END COMMENT.

¶7. (SBU) BIO NOTE: Cabezas is 50 years old and has been a member of the National Assembly (AN) since 2000. Before that, he served as a deputy in the Venezuelan Congress since ¶1990. He represents his home state of Zulia and before being

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named Finance Minister, rumors had it that he was interested in the governorship of Zulia, currently held by former opposition Presidential candidate Manuel Rosales. Cabezas graduated from the University of Zulia and was a professor there of Economics. He has been active in obtaining financing for his university, including creating the Institute of Economic and Social Investigation and a postgraduate program in Humanities and Education. Not only a public servant, Cabezas also owns a company in Zulia that is rumored to have uncanny success in winning PDVSA contracts, though no formal accusations of corruption have ever been made. END NOTE.

WHITAKER